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Switching barriers' influences on service recovery evaluation in the retail banking industry: Construct development and testing

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A B S T R A C T

The main goal of the present research was to determine the influence of switching barriers on service recovery evaluation in order to explore ways in which banks can improve their recovery performance. The research develops and tests two scales that measure service recovery and switching barriers and uncovers the existence of a six-factor structure measuring service recovery (reversing bank mistakes, customer compensation, customer time and effort, treatment of customers, complaint handling time and power of bank employees to make decisions). The investigation also confirms the existence of a five-factor structure measuring switching barriers (organizational credibility, value congruency, relational value, difficulties of switching banks and lack of attractive banking alternatives). In addition, the study shows that the dimensions of organizational credibility, value congruency and relational value relate positively to service recovery evaluation, while the dimension concerning difficulties of switching banks is negatively related to service recovery evaluation.

C H I N E S E A B S T R A C T

本研究的主要目的是探讨转换壁垒对服务补救评估的影响，寻求相关方法，以便银行提高其服务补救水平。本研究设定并测试了两套测量服务补救和转换壁垒的方法，从而找出了可测量服务补救的六项因素(撤销银行失误、客户赔偿、客户时间和精力、客户接待、投诉处理时间以及银行员工的决策权力)。本研究也验证了可用于测量转换壁垒的五项因素(组织信誉、价值一致性、关系价值、转换银行的困难以及缺乏有吸引力的替代银行)。此外，本研究显示，组织信誉、价值一致性以及关系价值等因素与服务补救评估成正比关系，而转换银行的相关困难与服务补救评估成反比关系。

1. Introduction

A core marketing activity is to assist businesses in offering a high quality of service or product so that they can increase customer satisfaction which in turn leads to customer repurchase and long-term loyalty (Kotler et al., 2003). Despite the consensus regarding the importance of offering high quality services, service failure remains a problematic issue for almost every business in the world (Ennew and Shoefer, 2004). A service delivery system fails when the system cannot deliver a service as promised (Ahmad, 2002).

Service failure results in increasing levels of customer dissatisfaction. Some customers manifest their discontent by complaining to their suppliers, but surprisingly most customers do not complain. According to Chakrapani (1998, p. 12), only a small percentage (approximately 4%) of all dissatisfied customers make a complaint. This situation occurs because not all businesses are well organized to handle complaints, and many of them have a negative attitude toward complaints (Chakrapani, 1998, p. 13).

Service recovery efforts are all actions that a business may take to rectify a service failure. Lewis and McCann (2004) report that academic research on service failure and recovery is relatively recent and still evolving and therefore needs more investigation. Davidow (2003) points out that there is no consensus on how businesses should respond to complaints, nor as to what are the most important dimensions. He also argues that few empirical researchers look at more than three dimensions at once, or use the same dimensions in their studies on each occasion. Furthermore, most of the existing studies on service failure and recovery have been undertaken within Western industrialized countries while minimal research in South American countries has been conducted despite different cultural and socio-economic background. Stevenson and Plath (2002) claim that Hispanic customers (e.g. Mexican, Central

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and South American, and Caribbean) have different financial service consumption patterns to non-Hispanic 'white' customers. Hence, a marketing approach unique to the needs of Hispanic customers is required to reach this group.

In terms of switching barriers (i.e., any factor that impedes customers' options to change providers; Jones et al., 2000), increasing competition puts pressure on businesses to improve the quality of services they offer in order to increase the probability of retaining their customers.

Ranaweera and Prabhu (2003) claim that companies might retain their customers by creating switching barriers that add value to their services. Switching barriers are critical to the management of service delivery and product development in businesses that compete on the basis of service provision. This is due to the fact that customers in an increasingly globalized marketplace are constantly assessing their options as to the best service providers for their service needs. Hence, if banks want to develop long-lasting relationships with their customers, understanding both why dissatisfied customers do not switch to other banks and how the presence of switching barriers affects the evaluation of a bank's service recovery effort is vital (Yanamandram and White, 2006).

If businesses know which dimensions are of importance to customers wanting to switch to competitors they can tailor their product to respond more specifically to customers' needs, particularly after a service failure. Responding appropriately to customers' needs after a service failure may mean that banks are likely to retain more customers and build brand loyalty amongst existing customers. In relation to the South American context, and the Chilean banking industry in particular, valid information is required to allow bank managers to make sound decisions on the matter.

Regarding the relationship between switching barriers and service recovery, the influence of switching barriers, such as switching costs, regarding the way businesses handle complaints has also not been fully investigated. Estelami (2000) recommends examining this area, which will allow businesses to make better managerial decisions about the switching barriers they should choose to improve their relationships with their customers. This is particular relevant to the Chilean banking industry as more valid and reliable studies are needed to address this issue.

2. Literature review and research questions

This section discusses service recovery and switching barriers, the two main concepts of this investigation. Their definitions and impact on the financial performance of businesses and dimensions that have been used in past research are presented and discussed.

2.1. Service recovery

Bowen and Johnston (1999) see service recovery as the second opportunity a business has to satisfy a customer as the first time the business failed to do so in a proper way. In this sense, the goal of service recovery should be seen as the retention of existing customers and the building of stronger bonds with those customers rather than simply trying to attract new ones (Andreassen, 2001). However, achieving the latter may be considered a bonus in the process.

The recovery of service failures can provide a major opportunity for businesses to create very satisfied customers if mistakes and failures are an inevitable part of service (Johnston, 2001). Effective service recovery will enhance the probability that aggrieved customers are returned to a state of satisfaction and are likely to maintain the business relationship which is obviously beneficial (Boshoff and Allen, 2000). For instance, Ahmad (2002) reports that when customers have bad experiences with online stores, they do not tend to use them in the future. But customers who feel their problems are resolved to their satisfaction are likely to continue using them. A number of studies have reported a significant effect of customer complaints and service recovery on customer loyalty (Awwad, 2012; DeWitt et al., 2008; Kitapci and Dortyol, 2009; Lobato-Calleros et al., 2013; Van Vaerenbergh et al., 2012; Zeithaml et al., 1996; Zoghbi-Manrique-de-Lara et al., 2013). Positive association between service recovery and customer loyalty has also been validated in the banking industry (Abubakar et al., 2013a, 2013b; de Matos et al., 2013; Jones and Farquhar, 2007; Komunda and Osarenkhoe, 2012). According to Barlow and Moller (1996, p. 30), effective complaint handling mechanism can be a powerful source of positive word of mouth, and that the more dissatisfied customers become, the more likely they are to use word of mouth to express their displeasure.

Regarding service recovery evaluation, numerous empirical research studies apply and demonstrate the importance of service recovery efforts related to perceived justice or fairness when examining consumer responses to complaints (Blodgett et al., 1997; de Matos et al., 2011; Hui and Au, 2001). Other studies show that customers evaluate the fairness of service recovery based on three different forms of perceived justice or fairness: procedural fairness, interactional fairness and distributive fairness (Blodgett et al., 1997; Goodwin and Ross, 1990).

Davidow (2000) defines procedural fairness as the customer's perception of the fairness of a business' visible policy and procedures; interactional fairness as the customer's perception of the fairness of the organization's representative's attitude and personal interaction with the customer; and distributive fairness as the customer's perception of the fairness of the outcome of the business' response.

Researchers consider different dimensions of service recovery for procedural, interactional and distributive fairness. For instance, procedural fairness considers the dimensions of accessibility, flexibility, information/feedback, empowerment and time (Boshoff, 1999; Davidow, 2003; Estelami, 2000; Tax and Brown, 1998). Interactional fairness considers dimensions such as honesty, politeness, tangibles and communication skills (Boshoff, 1999; Goodwin and Ross, 1990). Finally, distributive fairness includes the service recovery dimensions of apology, correction and compensation (Estelami, 2000; Johnston and Fern, 1999).

In relation to service recovery efforts in the banking sector, the probability of customers making complaints is high after an unsatisfactory experience due to the high diffusion of banking products in consumer markets (Casado et al., 2011; Komunda and Osarenkhoe, 2012; Neto et al., 2011; Palmatier et al., 2009). In the context of the British banking industry, Jones and Farquhar (2007) found that customers who complain over front-line-staff tend to be better satisfied about complaint resolutions than other modes of complaints. Komunda and Osarenkhoe (2012) revealed that communication and explanations from the banks are important dimensions for consumers and have a positive impact on service recovery. Casado et al. (2011) also revealed that lower levels of explanations and distributive justice and higher levels of dissatisfaction with service recovery increase the probability of complaint and exit of banking customers in Spain. In a study to examine service recovery of Australian banks, Valenzuela et al. (2013) found that the concepts pertaining to fairness (procedural, interactive, and distributive) were found to be highly relevant in consumers' evaluations of service recovery efforts of Australian banks.

Considering the importance of the three types of perceived fairness to customers' perceptions of effective service recovery, research undertaken on service recovery evaluation in a specific cultural context (such as that in Chile) should consider at least one service recovery dimension related to each perceived fairness dimension. Along these lines, Hui and Au (2001) claim that perceived fairness